Best Practices & Benchmarking

Making Worthwhile Comparisons

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Making Worthwhile Comparisons

Benchmarking for best practices provides models of excellence, breaks organizations out of a "business as usual" mentality, and creates the motivation and the methodologies for strategic action.

A *best practice* is a business function, process, or system that is considered superior to all other known methods. A documented strategy and approach used by the most respected, competitive, and profitable organizations, a best practice is widely known to improve performance and efficiency in a specific area. Successfully identifying and applying best practices can save money, eliminate redundancy, and enhance organizational effectiveness.

Conducting a Best Practices Review

From payroll and employee training to budget systems, procurement, and distribution, there are many processes that can benefit from a best practices review. The key is to get to know your organization first, and to consider its strategic objectives and the processing and operating units that contribute to those objectives. You should be able to determine what drives the cost of a particular process, and if that process is effective in achieving its goals.

In conducting a best practices review, it is important to consider the *whole* process. An evaluation of how well the medical supply system works, for instance, would entail looking not only at the distribution function, but also at purchasing and warehousing, because changes in one part of the system will impact the others. Failing to capture the entire process may result in pushing costs into another area of the process.

Undertaking a best practices review challenges your organization to consider new, sometimes unorthodox approaches. For many who undertake this endeavor, it is a lesson in humility. By asking "what can we learn from others?" organizations must step beyond territorialism and a "business as usual" perspective to embrace the insights that come from identifying areas of weakness and ignorance as well as areas of strength and expertise.

When is a Best Practices approach appropriate?

There are several questions a public-sector organization should ask itself when considering whether to use a Best Practices study of program activities:

- Have GAO and others reported on the acknowledged problem areas before? To what extent have there been attempts to make the process work as designed?
- Is there a process with similar requirements that can be compared to the one being examined but that is implemented in a way that provides significantly better results?
- Do the areas being considered have an established counterpart in the private or public sector that will provide evidence of the benefits of a new process?

One of the time-tested tools a variety of public- and private-sector organizations have used for identifying best practices is *benchmarking.*

Benchmarking

A benchmark is a *standard of performance*. As a financial management improvement strategy, benchmarking helps organizations identify standards of performance in other organizations and to import them successfully to their own. It allows organizations to discover where they stand in relation to others. By identifying, understanding, comparing, and adapting one's own organization with the outstanding practices and processes of others, an organization can target problem areas, best levels of performance, and solutions to improve results. A public-sector organization can borrow the best practices of the private sector, and vice versa.

The important role financial managers play

Financial managers are critical players in any best practices review. They help to ensure that appropriate "apples-to-apples" comparisons are being made between an internal process and an external process. Many federal financial managers routinely adapt the best practices and performance innovations of other agencies to their own.

Organizations that accomplish a particular activity at the highest value, i.e. at the lowest cost and/or quality or efficiency are considered "Best-in-Class." In determining what qualifies as worldclass, benchmarking asks the question: "who are we now, and who do we want to be?" The best benchmarking efforts don't simply match the performance of others; they are motivated to exceed it.

Typically performed by internal personnel who already have a thorough knowledge of the process under review, benchmarking looks beyond performance measures and cost ratios. It considers the *total organizational impact*.

In benchmarking with comparable others, an organization:

- Determines how leading organizations perform specific process(es);
- Compares their methods to its own; and
- Uses the information to improve upon or completely change its processes.

There are several forms benchmarking can take. *Internal benchmarking* studies the practices and performance within the organization itself. *External benchmarking* determines the performance of others, preferably worldclass companies. *Quantitative* benchmarking allows organizations to measure progress toward goals and to set improvement objectives in terms of specific performance measures or metrics. An example of a metric benchmark might be "cycle time is less than 25 hours," or "order fulfillment is less than 14 days." These metrics are very precise and based on detailed and careful analysis gleaned from surveys or interviews. Another type of benchmarking study, sometimes called *process benchmarking,* examines how top performing companies accomplish a specific process. These studies are undertaken through research, surveys, interviews, and site visits. Process benchmarking studies often look at organizations that have recently and successfully implemented reengineering or improvement efforts.

It is important when benchmarking with these stellar organizations that you gain a clear understanding of the scope of their project, the methodology they used, the critical success factors they were able to identify, the challenges and opportunities they faced in implementation and, finally, the important lessons they learned.

The "Gap Analysis"

When examining the best practices of others and drawing comparisons, an organization will often perform what is called a "gap analysis." This is a method that helps identify the performance or operational differences between your process and that of your benchmarking partners, and to understand why the differences are there. One way to identify these gaps is through a technique called "Activity Modeling," a useful method for understanding how a business process really works by first describing how things are ("As-Is" modeling), and then by how you want them to be (" To-Be" modeling).

Each activity, usually diagrammed, shows the inputs to that activity, the outputs of that activity, the controls or constraints on the way the activity is performed, and the mechanisms or factors of production consumed by the activity in transforming inputs to outputs.

Achieving maximum value

Benchmarking may sound a bit like "industrial tourism," whereby inferior organizations simply "skim the cream from the top," spying and copying on their superiors. In fact, benchmarking is an ongoing process that generally doesn't yield quick fixes or panaceas. It's much more than "copycatting." Primarily a people-to-people interaction, benchmarking requires curiosity, inventiveness, and an eagerness to build upon what others have learned.

A common mistake organizations make in their benchmarking endeavors is to only benchmark someone within their own industry, or worse yet, their competition. Your competition may not be "Best-in-Class," even if they are more profitable or successful than you. It may ultimately be more beneficial to look at similar *processes* rather than industries—to seek out companies that serve as excellent models for a particular business process or function.

Benchmarking is a method for improving performance by identifying, understanding, comparing, and adapting one's own organization with the outstanding practices and processes of others.

Benefits of Benchmarking

- Helps organizations to make better-informed decisions;
- Exposes organizations to innovations and breakthroughs;
- Allows organizations to see beyond the barriers, to embrace change, to think "outside the box"; and
- Provides organizations with a methodology and a game plan for accelerating, implementing, and managing change.

Key Actions in Benchmarking for Best Practices

GAO has pinpointed a number of steps that are integral to an effective Best Practices Review:

• Understand the Government Process You Want to Improve.

Choosing an optimal benchmarking partner requires a deep understanding of the process being studied and of the benchmarking process itself. By thoroughly grasping the process you are reviewing, you establish a reliable baseline of comparison. Your interview questions will have more focus this way, and you also will feel confident that you have selected appropriate comparison companies or organizations. A great way to facilitate data gathering is by discussing the process in detail with agency officials and then depicting the process in a flowchart.

• Research to Plan the Review.

Before selecting comparison organizations, you should research not only the organizations themselves, but also current industry trends and developments. There are many avenues of research at your disposal:

• **literature**—government documents, newsletters, and previously published performance reports;

• **internet and library searches**; and

• **conversations, surveys, or interviews** with consultants, academics, and industry experts (this includes watchdog organizations, professional associations, oversight commissions, etc.)

These sources can provide you with the background information you need to make the most effective use of your time, as well as your best practice organization's time.

• Select Appropriate Organizations.
Your research should yield a list of best practice organizations. Now you must determine how many and which ones to visit. Experts suggest you keep the list to a manageable number, which can be as low as five. You will need to establish your own selection criteria. For instance, if you decided to benchmark your organization's snow removal process, you might determine that hilly terrain is a significant criterion in selecting a best practices partner. If you were going to benchmark DoD's inventory system, you might decide that geographical diversity is an essential evaluation criterion. In any case, what is most important is that you find companies that are considered by experts to be among the best at the process you are reviewing.

• Collect Data from Selected Organizations.
Develop a standard list of questions that will structure the interview process and guide your discussions. This list may need to be revised after you obtain feedback from the first interview. Remember, your questions should be geared to discovering common practices and characteristics among the organizations you have identified for benchmarking. Site visits are often a part of this process, and can give you first-hand opportunities to observe a process in action. This is where synergy between organizations can occur—a mutual sharing of ideas and innovations.

• Identify Barriers to Change.
With your solid list of best practices in hand, you are almost ready to make your recommendations. But first, you should identify the barriers to implementation within your organization, whether real or perceived. Some of these barriers may be beyond your ability to control, such as regulatory and statutory requirements. Others may be more deep-seated, residing within the organizational culture itself. You should be aware of some of the difficulties these barriers may pose to implementation. You should also consider the impact certain changes might have on the organization itself. What will be the effect of a particular recommendation on the agency's ability to deliver a service?

• Make Recommendations for Change Constructive and Convincing.
It is recommended that you give your agency a "basket of ideas" from which to choose. Flexibility should be built into the recommendations, as your agency will need to adapt them to its unique needs and functions. It also helps to outline the benefits as well as the key steps that should be taken in order for implementation to be successful. A *pilot project* can be an excellent way for your agency to work through any obstacles or concerns, and to develop reliable cost estimates for full implementation. Finally, it is important to remember that in any benchmarking process you must ensure that your organization is in a position—both technically and psychologically—to implement change recommendations.

Mapping out your time
It is important to use time wisely; at least half of your benchmarking project time should be spent on collecting data. Typically, approximately 30% of your time should be spent on planning; 50% on information gathering and research; and the final 20% on analyzing performance gaps (discrepancies between how your organization performs a process and how your benchmarking partner(s) does).

Worldclass Financial Management

To help promote effective implementation of federal financial management reform, GAO studied the financial management practices and improvement efforts of nine leading private- and public-sector finance organizations to identify the success factors, practices, and outcomes associated with worldclass financial management. They defined a "worldclass

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Case in Point:
GAO Benchmarking Study on DoD Service Acquisition

GAO recently examined a number of leading companies to identify best practices that could yield benefits to DoD's Acquisition of Services, an area where DoD far surpasses any other agency in annual expenditures. (In FY2000, DoD acquired more than $53 billion in services.) GAO's work, as well as that of other oversight agencies, continues to find that millions of service contracting dollars are at risk at DoD and other federal agencies because acquisitions are poorly planned, not adequately competed, or poorly managed.

GAO interviewed and consulted with a number of leading companies from a variety of industries, including Exxon Mobil, Hasbro, Inc., and Dun & Bradstreet Corporation. Although Best-in-Class in their respective markets, these companies conducted their own internal benchmarking to look for alternative ways to manage their service spending in order to stay competitive, respond to market and stockholder pressures, and deal with economic downturns in overseas markets. They have been recognized by their peers for successfully reengineering their approach to purchasing services. GAO found that these companies arrived at many of the same conclusions. These findings and best practices can guide DoD as it begins to reengineer its own acquisition of services.

The most important discovery was that service improvements generally began with a corporate decision to pursue a more *strategic approach* to acquiring services. This strategic approach involved everything from developing a better picture of what the company is spending on services to taking an enterprisewide approach to procuring services to developing new ways of doing business. Once embarking upon this strategic approach, these companies began to look at how much they were spending on services and from whom. This self-analysis yielded the knowledge they needed to leverage their buying power, reduce costs, and better manage their suppliers.

Service Acquisition Best Practices

1. Secure up-front commitment from top leaders—providing direction and vision, facilitating development of common processes and approaches, and providing the clout necessary to obtain initial buy-in and acceptance of reengineering efforts.

2. Obtain better knowledge on service spending—how much is being spent and where the dollars are going. These "spend analyses" revealed what types of services were being acquired; how many suppliers were utilized for a specific service; how much the company was spending for that service (in totality and with each supplier); and which units within the company were purchasing the services.

3. Create the structure, processes, and roles to support an enterprisewide perspective—elevate or expand the role of the company's procurement organization; designate commodity managers to oversee key services; and make use of cross-functional teams to help identify the company's service needs, conduct market research, evaluate and select providers, and manage performance.

4. Enable success through sustained leadership, communication, and metrics—it was found that cultural barriers and resistance could be overcome through the continuous support of management and by creating a compelling case for change that communicates the rationale, goals, and expected results for new processes and practices. In addition, the likelihood of success was found to be greater when companies used some form of performance measurement. These metrics allowed companies to evaluate and understand their current level of performance; to identify the critical processes that require focused management attention; to obtain the knowledge needed to set realistic goals for improvement; and to document results over time.

(*Best Practices: Taking a Strategic Approach Could Improve DoD's Acquisition of Services.* GAO-02-230. January 2002.)

finance organization" in terms of the business outcomes it produces—outcomes such as improved business analysis, innovative solutions to business problems, reduced operating costs, increased capability to perform *ad-hoc* analysis, and improved overall business performance. To arrive at a concise list of best practices, GAO first conducted an extensive review of financial management literature, guides, and reports. Case study data were collected through interviews and consultations with leading public- and private- sector experts in financial management.

The following 11 financial management best practices were identified:

1. Build a foundation of control and accountability that supports external reporting and performance management.

2. Provide clear, strong executive leadership.

3. Use training to change the organizational culture and engage line management.

4. Assess the finance organization's current role in meeting mission objectives.

5. Maximize the efficiency of day-to-day accounting activities.

6. Organize finance to add value.

7. Develop systems that support the partnership between finance and operations.

8. Reengineer processes in conjunction with implementing new technology.

9. Translate financial data into meaningful information.

10. Develop a finance team with the right mix of skills and competencies.

11. Build a finance organization that attracts and retains talent.

Benchmarking for best practices allows organizations to determine the criteria underlying performance, as well as the discrepancies in performance among processes; to identify specific problem areas; and to improve on the delivery and quality of services. Because it has an outward view, benchmarking can have a powerful impact on organizations. When conducted regularly, it can reduce waste, improve operational efficiency, and support many organizational processes, from budgeting to strategic planning. Benchmarking for best practices easily integrates with other strategic initiatives such as Reengineering and Total Quality Management (TQM). But it also works well on its own—providing models of excellence, breaking organizations out of a "business as usual" mentality, and creating the motivation and the methodologies for meaningful change.

See:

—*Best Practices Methodology: A New Approach for Managing Government Operations*. GAO/NSIAD-95-154, May 1995.

—*Best Practices: Taking a Strategic Approach Could Improve DoD's Acquisition of Services.* GAO-02-230. January 2002.

—*Executive Guide: Creating Value Through World-Class Financial Management.* GAO/AIMD-00-134. April 2000.

About the OSD Comptroller iCenter

The OSD Comptroller iCenter is a comprehensive online information and education resource related to the DoD budget process, financial management, and best business practices.

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